

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NO. RPU-02-3
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**ORDER SETTING TEMPORARY RATES, APPROVING CORPORATE
UNDERTAKING, AND REQUIRING ADDITIONAL INFORMATION**

(Issued June 27, 2002)

On March 29, 2002, Interstate Power and Light Company (IPL) filed with the Utilities Board (Board) a request for a general rate increase in temporary and final electric rates. IPL proposed a temporary increase that would produce additional annual revenue of approximately \$22.4 million and a permanent increase that would produce additional annual revenue of approximately \$82 million. On April 26, 2002, the Board docketed the proposed tariffs, TF-02-127 and TF-02-128, as Docket No. RPU-02-3.

On April 26, 2002, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to the request for temporary rates. The Community Coalition for Rate Fairness (CCRF) filed an objection to the request on April 29, 2002. IPL filed a response to the objections on May 8, 2002. In addition, the Iowa Consumers Coalition addressed temporary rates in a filing made on the same date.

Iowa Code § 476.6(13) (2001) controls the manner in which the Board sets temporary rates. That statute provides, in part:

Upon the request of a public utility, the board shall, when required by this subsection, grant the public utility temporary authority to place in effect any or all of the suspended rates, charges, schedules or regulations by filing with the board a bond or other undertaking approved by the board conditioned upon the refund in a manner to be prescribed by the board of any amounts collected in excess of the amounts which would have been collected under rates, charges, schedules or regulations finally approved by the board. In determining the portion of the new or changed rates, charges, schedules or regulations to be placed in effect prior to a final decision, the board shall apply previously established regulatory principles and shall, at a minimum, permit rates and charges which will allow the utility the opportunity to earn a return on common stock equity equal to that which the board held reasonable and just in the most recent rate case involving the same utility or the same type of utility service, provided that if the most recent final decision of the board in an applicable rate case was rendered more than twelve months prior to the day of filing of the request for temporary rates, the board shall in addition consider financial market data that is filed or that is otherwise available to the board and shall adjust the rate of return on common stock equity that was approved in that decision upward or downward as necessary to reflect current conditions.

In Northwestern Bell v. Iowa State Commerce Commission, 359 N.W.2d 491, 496

(Iowa 1984), the Iowa Supreme Court interpreted this statute and stated, in part:

[I]n the 1983 Code the Assembly telescoped the temporary and permanent rate steps into one procedure, evidently to end the prior problem of a utility's placing its new rates in effect in temporary form under bond and then having little motivation to press forward with the permanent rate aspect. The General Assembly has ended the ability of the utility itself to set the temporary rates in the usual situation; the commission sets them and proceeds to the permanent rates.

If instead the utility could obtain judicial review of temporary rates and obtain its desired rates from the courts, as in this case, its motivation to seek permanent rates would be dulled and fulfillment of the legislative scheme would be hampered. To minimize the possibility of harm to the utilities, the legislature started time running from the original filing as to both temporary and permanent rates ...

While permanent rates may ultimately be set higher than the commission's temporary rates, by shortening the time for the commission's final decision to ten months and by streamlining the temporary and permanent rate procedure, the Assembly has demonstrated its desire to minimize utility hardship.

The Board, therefore, is directed to permit IPL to collect rates which, at a minimum, allow the return on common equity equal to that which was held reasonable in the most recent rate case involving the same utility or same type of utility service, provided the Board's decision was rendered within 12 months prior to IPL's request for temporary rates. In addition, the Board is directed to apply established regulatory principles in setting the return on common equity and considering any proposed adjustments. Since the legislature directs the Board to establish a temporary rate level by applying established regulatory principles rather than examining an evidentiary record, it is not appropriate for the Board to make detailed findings of fact on each individual issue.

Consumer Advocate's objection to IPL's request for temporary rates and IPL's reply to the objection narrowed the issues to be considered in setting temporary rates to two rate base issues, one income statement issue, and one cost of capital issue. The CCRF and ICC did not contest the amount of temporary rates, but did present arguments on how any temporary rate increase should be allocated among

IPL's four pricing zones. In addition to the foregoing issues, the Board will address IPL's request for approval of its corporate undertaking. The issues to be addressed are:

- I. COST OF CAPITAL
 - A. Return on Common Equity
- II. RATE BASE
 - A. Cash Working Capital
 - B. Studies Mandated by Regulatory Agencies
- III. INCOME STATEMENT
 - A. Insurance
- IV. ALLOCATION OF TEMPORARY RATES AMONG PRICING ZONES
- V. CORPORATE UNDERTAKING

II. I. COST OF CAPITAL

A. RETURN ON COMMON EQUITY

Iowa Code § 476.6(13) (2001) requires that the Board review current financial information if a Board decision on the cost of equity for the same type of utility service was rendered more than 12 month's prior to the current filing. Because the last litigated final electric rate case decision by the Board was in 1994, it is necessary for the Board to consider current market data. While there have been electric rate cases since 1994, those cases were settled and the Board has held it is inappropriate to use a return on equity from a settled case to set temporary rates.

Interstate Power Company, Docket No. RPU-95-1, "Order Setting Temporary Rates and Approving Corporate Undertaking" (6/29/95).

IPL proposes a 12 percent return on equity for temporary rates. IPL relies both on the settlement in a MidAmerican Energy Company case, Docket Nos. RPU-01-3 and RPU-01-5, and its witness's analysis. Consumer Advocate uses the risk premium analysis to recommend an 11.23 percent return. Consumer Advocate starts with the 7.73 percent average yield on A-rated utility bonds for the 12 months ending February 2002. To this number is added a 250 to 450 basis points risk premium, resulting in a cost of equity range from 10.23 to 12.23 percent. Consumer Advocate uses the midpoint, 11.23 percent, for its recommendation.

IPL's reliance on the settlement in Docket Nos. RPU-01-3 and RPU-01-5 is misplaced. First, as noted above, the Board does not use settled cases to establish precedent for return on equity in temporary rates. Second, the order approving settlement explicitly noted the 12 percent used was not a state-approved return on equity in the traditional sense but merely a trigger for a revenue sharing mechanism.

The Board has in recent years placed greater reliance on the risk premium method in determining return on equity. Under the Board's risk premium approach, 250 to 450 basis points are generally added to the current A-rated utility bond yield, which is 7.76 percent for March 2002 (Moody's Long-Term Corporate Bond Yields). The risk premium approach produces a cost of equity range of 10.26 percent to 12.26 percent. After considering all current market data, the Board will set the cost of equity at 11.35 percent, which is slightly above the midpoint of the range.

II. RATE BASE

A. CASH WORKING CAPITAL

The dispute over cash working capital revolves around the appropriate revenue collection period to use. IPL uses a recent lead-lag study that shows there is a 27.1-day revenue collection period. Consumer Advocate uses a 15-day revenue collection period from Docket No. RPU-94-2, the most recent litigated rate case involving one of IPL's predecessors, IES Utilities Inc.

Consumer Advocate argues that while new lead-lag study numbers may be proposed for permanent rates, cash working capital requirements for temporary rates should be calculated using the lead-lag days from the Docket No. RPU-94-2 study. IPL counters that while a recent study is used, the methodology used in the study is the same as used in prior studies.

Subparagraph 199 IAC 7.4(6)"e"(5) provides that IPL must file its "cash working capital requirements, including a recent lead-lag study that accurately represents conditions during the test period." The rule does not mandate that a lead-lag study approved in a prior proceeding be used.

The lead-lag study used in Docket No. RPU-94-2 used a random customer selection of approximately 600 electric customers to calculate the revenue collection period days. The current study is more complete and uses IPL customer data, not just sampled data from former IES Utilities Inc. customers.

The new lead-lag study reflects current conditions and will be used to establish cash working capital requirements for temporary rate purposes. However,

because the study was for a period where receivables may have been higher than normal because of winter gas prices, the Board will require IPL to provide additional information for consideration in the full rate case. IPL will be required to file new studies for both calendar year 1999 and calendar year 2000.

B. STUDIES MANDATED BY REGULATORY AGENCIES

Consumer Advocate seeks to remove from IPL's rate base approximately \$11 million in capital costs for studies that IPL states were mandated by the Nuclear Regulatory Commission (NRC) and other regulatory authorities. These costs were incurred in the past and deferred in Federal Energy Regulatory Commission Account 182. Consumer Advocate argues that if any of these costs were incurred during the rate freeze agreed to as part of the merger to form Alliant Utilities, allowing these costs in temporary rates would violate the rate freeze.

IPL states that because these were mandated studies, it is appropriate to include them as a capital cost in rate base. The accounting for these items is consistent with the treatment used in Docket No. RPU-94-2.

The Board will include the mandated studies as capital costs for temporary rate purposes. IPL's accounting of these costs is consistent with the accounting treatment used for such costs incurred by IES Utilities Inc. in Docket No. RPU-94-2. In reviewing the workpapers provided by IPL, IPL depreciates a portion of the balance each year, similar to how transmission line capital costs would be recovered. Such treatment, at least for temporary rate purposes, is not a violation of the rate freeze and is consistent with prior regulatory treatment. However, in the full rate

case, it may be appropriate to examine whether these costs should in fact be capitalized or if they should be expensed.

III. INCOME STATEMENT

A. INSURANCE

IPL proposed adjustments to test year amounts for property insurance and nuclear excess property damage to reconcile the amounts expensed with the amounts actually paid. Consumer Advocate objected to the adjustment because no documentation or verification was provided. Subsequent to Consumer Advocate's objection, IPL filed invoices verifying the insurance amounts paid. Because documentation was provided, the Board will allow the adjustment for temporary rates.

IV. ALLOCATION OF TEMPORARY RATES AMONG PRICING ZONES

The most difficult issue is the allocation of temporary rates among pricing zones. IPL's service territory in Iowa consists of service territory that formerly was served by four different utilities: IES Utilities Inc., Interstate Power Company, Iowa Southern Utilities Company, and Union Electric Company. Each of those utilities had different costs and rate structures and each rate structure was essentially "grandfathered" following the mergers. A rate freeze that was part of the merger of Interstate Power Company, IES Utilities Inc., and Wisconsin Power and Light expired

this year, continuing the disparate rates and rate structure to the present. Some of the disparities between the four pricing zones are significant.

IPL proposed that any temporary rate increase be spread to all customer class rates and pricing zones by applying a uniform percentage increase. This would be done by first increasing class base rates (excluding energy adjustment clause and energy efficiency cost recovery revenues) on a uniform percentage basis and then uniformly allocating each class's increase among zones according to total revenues. This approach actually increases the zonal price disparity. Such an approach is unacceptable.

IPL subsequently filed other alternatives for allocating any temporary increase. These various alternatives reduce the disparities among the four pricing zones.

The CCRF, whose members are located in the two higher priced zones, the Northern (IES Utilities Inc.) and Southeastern (Union Electric Company), objected to any increase in temporary rates for customers in the two higher priced zones. The CCRF pointed out that if any temporary increase went to customers in those zones, it was likely they would be paying more than they will pay in final rates. Under the Board's refund methodology, those customers would not be entitled to any refunds as long as the total amount collected by IPL under temporary rates was less than final rates.

The ICC consists of customers located in the Southern (Iowa Southern Utilities Company) and Interstate (Interstate Power Company) pricing zones. Compared to the Northern and Southeastern zones, these are generally lower priced

zones. The ICC objects to zonal disparities being addressed in temporary rates without allowing all parties to submit evidence and fully litigate underlying class cost-of-service and rate design issues. The ICC maintains that there is currently no basis for determining that the existing zonal rate differences are unreasonably discriminatory and that implementing a solution before defining that a problem exists would deny ICC members their due process rights.

The CCRF is correct in its refund analysis. In prior Board decisions, a utility's refund liability has been limited to those circumstances in which the permanent rate increase is less than the temporary increase. In addition, where there has been refund liability, the Board has offset total underpayments against total overpayments rather than to return to each customer the amount actually overpaid by the customer. This methodology has been approved by the Iowa Supreme Court. See, Office of Consumer Advocate v. Utilities Board, 486 N.W.2d 586, 589 (Iowa 1992).

The ICC is incorrect that the rate disparity problem or issue has not been defined. In fact, the Board spoke to the issue of rate consolidation in the last litigated electric rate case involving a predecessor of IPL. In the final order issued on May 12, 1995, in IES Utilities Inc., Docket No. RPU-94-2, IES Utilities Inc., the Board noted that IES, a predecessor of IPL, had three different pricing zones: Northern zone is the former Iowa Electric territory, Southern zone is the former Iowa Southern Utilities territory, and Southeastern zone is the former Union Electric territory. The Board said at page 34:

The Board believes rate consolidation of all three pricing zones is an appropriate goal so that customers in all the zones can share in the potential efficiencies of the mergers and acquisition which have created IES and its current corporate structure. IES is clearly operated as one utility. It is reasonable that rates should be based on utility-wide costs. However, progress towards this goal may have to be tempered to prevent rate shock. . .

While rates were not consolidated in this case, the rate reduction ordered was only allocated to the higher priced zones. In addition, the Board restructured Southern zone rates to somewhat match the Northern zone, but did not equalize the cents per kWh charge. The Board on rehearing affirmed the decision, noting that IES operated as one utility or operating system. The Board said that its cost of service rules, in general, assumed that for costing purposes, a utility is an integrated system rather than a separate collection of separate regional entities. 199 IAC 20.10(2). IES Utilities Inc., "Order Granting Rehearing in Part and Denying Rehearing in Part," Docket No. RPU-94-2 (6/30/95), p. 7.

Rate consolidation has therefore been at issue, at least with respect to IPL's predecessors, since 1994. Allocation of a temporary rate increase that lessens the often-dramatic rate disparity between the zones is consistent with the regulatory principles the Board has addressed both in its orders and rules. The temporary rate process, by its nature, does not afford parties the procedural protections available in the full contested case proceeding for the rate case, such as an opportunity for hearing and right of appeal to district court. Iowa Code § 476.6(13); see Northwestern Bell vs. Iowa State Commerce Comm'n, 359 N.W.2d 491 (Iowa 1984).

Clearly, temporary rates should not be allocated to exacerbate the rate zone disparities by raising rates in zones not likely to receive a significant increase, or any increase, in final rates. This means that most Northern and Southeastern zone rates will receive no increases, since they are generally the highest among the zones. Northern zone lighting rates will receive a small increase since they are not the highest.

While the Board wants to begin the process of reducing the zonal rate disparities, the Board is also sensitive to rate shock issues and the impacts of any dramatic commercial and industrial increases on economic development. Therefore, the Board will adopt the basic approach used by IPL in the alternatives filed in response to the Board's May 3, 2002, order, except that class zone increases will be limited to 8 percent rather than 20 percent. That is, no class zone will receive a rate reduction, and class increases will be applied to the lowest zone first, until the lowest zone is equal with the next highest zone, then, applied uniformly to those zones. As in past Interstate Power cases, bulk power will be treated as a separate class in the IPL pricing zone, formerly served by Interstate Power. This pricing zone is now known as the IPC zone. Schedule F attached to this order shows the estimated increases by class zone.

IPL will be directed to design temporary rates according to test year bill determinants and revenues presented in IPL witness Berentsen's "Pricing Interim Workpapers" filed March 29, 2002, adjusted according to page 7, lines 1 through 7, of Mr. Berensten's supplemental direct testimony filed May 21, 2002. These

adjustments set Interstate Power "Other Public Authorities" apart from General Service, reclassify some energy efficiency cost recovery revenues from Interstate Power "Lighting" to "Other Public Authorities," and reduce the number of Interstate Power's residential customers. It appears that IPL's supplemental Exhibit 6 inadvertently applied IPL's final rate billing determinants rather than its temporary rate billing determinants.

V. CORPORATE UNDERTAKING

IPL filed a corporate undertaking with its temporary rate application. IPL has agreed to refund any temporary rates, with interest, which are collected that exceed final rates ultimately approved by the Board. This corporate undertaking is sufficient to ensure payment of any required refund and will be approved.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. Temporary rates based on this order shall become effective as of the date of this order, pursuant to Iowa Code § 476.6(13) (2001). On or before 20 days from the date of this order, Interstate Power and Light Company shall file revised tariff sheets that produce revenue not to exceed \$910,011,650, including a temporary rate increase not to exceed \$15,453,627. Attached to this order, and incorporated by reference, are schedules A through E, reflecting a total revenue requirement, rate base, cash working capital, income statement, and cost of capital

for temporary rates. The estimated increases by class zone for temporary rates are attached as schedule F.

2. Interstate Power and Light shall design temporary rates using temporary rate billing determinants as discussed in the body of this order.
3. Interstate Power and Light's corporate undertaking is approved.
4. Interstate Power and Light shall file lead-lag studies for calendar years 1999 and 2000 within 30 days from the date of this order.

UTILITIES BOARD

/s/ Diane Munns

/s/ Mark O. Lambert

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Elliott Smith

Dated at Des Moines, Iowa, this 27th day of June, 2002.

Schedule A

Interstate Power and Light
Revenue Requirement
Test Year Ended December 31, 2001

<u>Line No.</u>	<u>Description (A)</u>	<u>Amount (B)</u>
1	Rate Base	\$ 1,315,735,318
2	Rate of Return	9.2230%
3	Return On Rate Base	\$ 121,350,268
4	2000 Operating Income	<u>\$ 112,320,714</u>
5	Income (Excess) Deficiency	\$ 9,029,554
6	Tax Effect	<u>\$ 6,424,073</u>
7	Revenue (Excess) Deficiency	\$ 15,453,627
8	Operating Revenue	\$ 894,558,023
9	Percent Increase/Decrease	1.73%
10	REVENUE REQUIREMENT	\$ 910,011,650

Interstate Power and Light
Rate Base
Test Year Ended December 31, 2001

Line No.	Description (A)	13 Month Ave. Balance (B)	Adjustments (C)	Total (D)
1	Plant in Service	\$ 3,056,030,059	\$ (3,007,926)	\$ 3,053,022,133
2	Accumulated Depreciation	\$ (1,559,391,092)	\$ (1,690,727)	\$ (1,561,081,819)
3	Deferred Taxes	\$ (192,336,381)	\$ 1,598,610	\$ (190,737,771)
	Customer Advances	\$ (1,474,445)		\$ (1,474,445)
4	Customer Deposits	\$ (1,757,444)	\$ (43,854)	\$ (1,801,298)
5	Unclaimed Property	\$ (23,792)	\$ (1,151)	\$ (24,943)
6	Uncollectibles	\$ (1,045,717)	\$ 9,259	\$ (1,036,458)
7	Property Ins., Workers Comp.	\$ (3,409,074)	\$ 1,742	\$ (3,407,332)
8	Accrued Vacation	\$ (1,230,113)	\$ 93,175	\$ (1,136,938)
9	Accrued Pensions	\$ (3,175,816)	\$ (3,615)	\$ (3,179,431)
	Total Net Plant	<u>\$ 1,292,186,185</u>	<u>\$ (3,044,487)</u>	<u>\$ 1,289,141,698</u>
13	Working Capital			
14	Materials and Supplies	\$ 25,800,064	\$ (2,100,437)	\$ 23,699,628
15	Prepayments	\$ 3,235,064	\$ (23,373)	\$ 3,211,691
16	Fuel Inventory	\$ 23,269,182	\$ 1,861,483	\$ 25,130,665
17	Cash Working Capital	\$ (25,965,076)	\$ 516,712	\$ (25,448,364)
18	Total Net Working Capital	<u>\$ 26,339,234</u>	<u>\$ 254,386</u>	<u>\$ 26,593,620</u>
19				\$ -
20	Total Rate Base	<u><u>\$ 1,318,525,419</u></u>	<u><u>\$ (2,790,102)</u></u>	<u><u>\$ 1,315,735,318</u></u>

INTERSTATE POWER AND LIGHT COMPANY
IOWA ELECTRIC UTILITY
DETERMINATION OF CASH WORKING CAPITAL REQUIREMENTS
YEAR ENDED DECEMBER 31, 2001

<u>Days of Lag</u>		
<u>Estimated revenue lag:</u>		
1 Metering per	\$	15
2 Processing bi	\$	3
3 Collection per	\$	27
4 Total	\$	<u>45</u>

	(1)	(2)	(3)	(4)	Pro Forma Adjustment		
					(5)	(6)	(7)
Type of Expense	Amount	Expense Per Day (1)/365	Days Cash Required	Cash Requirement (2) x (3)	Pro forma Amount	Expense Per Day (5)/366	Cash Req. for Adjust. (3) x (6)
Labor:							
5 Bi-weekly	\$ 76,629,562	\$ 209,944	32.0	\$ 6,718,208			
6 Total Lab	\$ 76,629,562	\$ 209,944	32.0	\$ 6,718,208	\$ 1,894,587	\$ 5,191	\$ 166,112
Fuel Burned:							
7 Coal, includi	\$ 101,776,687	\$ 278,840	21.2	\$ 5,911,408			
8 Oil	\$ 4,436,381	\$ 12,154	21.9	\$ 266,173		\$ -	\$ -
9 Natural Gas	\$ 18,316,091	\$ 50,181	8.0	\$ 401,448			
10 Furfural Res	\$ 94,907	\$ 260	10.0	\$ 2,600			
11 Methane Ga	\$ 307,945	\$ 844	20.0	\$ 16,880			
12 Nuclear Fue	\$ 17,537,909	\$ 48,049	(31.1)	\$ (1,494,324)			
Other (for pro forma adjustment only)					\$ (1,797,330)	\$ (4,924)	\$ (64,504)
13 Total Fuel Bu	\$ 142,469,920	\$ 390,328	13.1	\$ 5,104,185	\$ (1,797,330)	\$ (4,924)	\$ (64,504)
14 Electricity pur	\$ 172,390,543	\$ 472,303					
15 Off-system sa	\$ (44,376,136)	\$ (121,578)					
16 Electricity Pur	\$ 128,014,407	\$ 350,725	12.0	\$ 4,208,700	\$ (5,153,116)	\$ (14,118)	\$ (169,416)
Other operation and maintenance:							
17 Total operat	\$ 534,357,338	\$ 1,463,993					
18 Less: Labor	\$ 76,629,562	\$ 209,944					
19 Fuel E	\$ 142,469,920	\$ 390,328					
Electricity purchased,							
20 befor	\$ 172,390,543	\$ 472,303					
Total Other Operation							
21 and Maint	\$ 142,867,313	\$ 391,417	6.5	\$ 2,544,211	\$ (5,348,233)	\$ (14,653)	\$ (95,245)
Other:							
22 Property tax	\$ 45,330,571	\$ 124,193	(318.2)	\$ (39,518,213)	\$ (648,194)	\$ (1,776)	\$ 565,123
23 Federal inco	\$ 54,840,992	\$ 150,249	6.0	\$ 901,494	\$ 4,861,711	\$ 13,320	\$ 79,920
24 State incom	\$ 19,754,562	\$ 54,122	(8.8)	\$ (476,274)	\$ 1,562,362	\$ 4,280	\$ (37,664)
25 Interest on l	\$ 47,201,404	\$ 129,319	(46.3)	\$ (5,987,470)	\$ (545,430)	\$ (1,494)	\$ 69,172
26 Preferred di	\$ 2,333,940	\$ 6,394	(0.7)	\$ (4,476)			
27 FICA taxes	\$ 6,612,276	\$ 18,116	29.2	\$ 528,987	\$ 141,439	\$ 388	\$ 11,330
28 Federal une	\$ 49,409	\$ 135	100.9	\$ 13,622			
29 State unemp	\$ 53,313	\$ 146	81.0	\$ 11,826			
30 External dec	\$ 6,008,004	\$ 16,460	(0.6)	\$ (9,876)	\$ 4,937,000	\$ 13,526	\$ (8,116)
31 Total Oth	\$ 182,184,471	\$ 499,134	(89.2)	\$ (44,540,380)	\$ 10,308,888	\$ 28,244	\$ 679,765
32 Total	\$ 672,165,673	\$ 1,841,548	(14.1)	\$ (25,965,076)	\$ (95,204)	\$ (260)	\$ 516,712

Schedule D

Interstate Power and Light
Income Statement
Test Year Ended December 31, 2001

Line No.	Description (A)	Iowa Only Book (B)	Adjustments (C)	Adjusted Total (D)	Additional Revenues Required to Yield 9.537% 1.66%	Total Revenues Required to Yield 9.537%
1	Operating Revenue	\$928,993,430	\$ (34,435,407)	\$894,558,023	\$ 15,453,627	\$910,011,650
2	Operating Expenses					
	Operation	\$521,333,873	\$ (31,174,077)	\$490,159,796		\$490,159,796
3	Maintenance	\$62,770,083	\$ (3,717,370)	\$59,052,713		\$59,052,713
4	Depr. And Amort.	\$122,824,473	\$ 3,518,714	\$126,343,187		\$126,343,187
5	Property Taxes	\$45,330,571	\$ (648,194)	\$44,682,377		\$44,682,377
6	Misc. Taxes	\$5,810,028	\$ 1,398,927	\$7,208,955		\$7,208,955
	Federal Income Taxes	\$54,840,992	\$ (10,735,352)	\$44,105,640	\$ 4,861,711	\$48,967,351
7	State Income Taxes	\$19,754,562	\$ (5,690,151)	\$14,064,411	\$ 1,562,362	\$15,626,773
8	Deferred Income Taxes	(\$18,672,785)	\$ 18,539,109	(\$133,676)		(\$133,676)
9	Investment Tax Credit	(\$2,849,018)	\$ (397,077)	(\$3,246,095)		(\$3,246,095)
10	Total Operating Expenses	\$811,142,779	(\$28,905,470)	\$782,237,309	\$ 6,424,073	\$788,661,382
11	Net Operating Income	\$117,850,651	\$ (5,529,937)	\$112,320,714	\$ 9,029,554	\$121,350,268
	Rate Base	\$ 1,318,525,419	\$ (2,790,102)	\$ 1,315,735,318		\$1,315,735,318 9.223%

Interstate Power and Light Company
 Cost of Capital
 Average 13-Month Ending December 31, 2000

Line No.	Description (A)	Adjusted Total	Ratio (C)	Cost (D)	Weighted Cost (E)
1	Long-Term Debt	\$812,853,770	48.614%	7.29%	3.546%
2	Preferred and Preference Stock	\$53,751,873	3.215%	6.52%	0.210%
3	Common Equity	\$805,440,865	48.171%	11.35%	5.467%
		<u>\$1,672,046,508</u>			
4	Total		100.00%		<u><u>9.223%</u></u>

**INTERSTATE POWER AND LIGHT COMPANY
TEMPORARY RATES
ESTIMATED INCREASES BY CLASS ZONE**

Customer Class Zones		Estimated Current Total Rate Revenue In \$ per kWh	Estimated Percent Increase	Estimated Temporary Total Rate Revenue In \$ per kWh
<u>Residential</u>				
	IES - N	\$ 0.1017	0.00%	\$ 0.1017
	IES - S	\$ 0.0617	8.00%	\$ 0.0666
	IPC	\$ 0.0827	2.67%	\$ 0.0849
<u>Farm</u>				
	IES - N	\$ 0.0918	0.00%	\$ 0.0918
	IPC	\$ 0.0859	6.13%	\$ 0.0912
<u>General Service</u>				
	IES - N	\$ 0.0910	0.00%	\$ 0.0910
	IES - S	\$ 0.0660	6.39%	\$ 0.0702
	IES - SE	\$ 0.0800	0.00%	\$ 0.0800
	IPC	\$ 0.0656	7.05%	\$ 0.0702
<u>Large General Service</u>				
	IES - N	\$ 0.0478	0.00%	\$ 0.0478
	IES - S	\$ 0.0384	6.70%	\$ 0.0410
	IPC	\$ 0.0449	0.00%	\$ 0.0449
<u>Bulk Power</u>				
	IPC	\$ 0.0371	1.30%	\$ 0.0376
<u>Lighting</u>				
	IES - N	\$ 0.1447	1.06%	\$ 0.1462
	IES - S	\$ 0.1173	8.00%	\$ 0.1267
	IPC	\$ 0.1466	0.00%	\$ 0.1466
<u>Other Pub. Authorities</u>				
	IPC	\$ 0.0566	1.63%	\$ 0.0575
<u>Total Company</u>		\$ 0.0601	1.80%	\$ 0.0612